Crude Oil Falls Further, Gratifying Consumers More Than Investors

The New York Times - January 12, 2007

By CLIFFORD KRAUSS

HOUSTON, Jan. 11 — Oil prices sank on Thursday to the lowest level in 19 months, providing potential relief to consumers. But investors in energy stocks may wish for a cold spell after they see the fourth-quarter earnings of their stocks in the next few weeks.

The prices of big energy companies have mostly been on a charge up the charts the last few years, as oil prices more than tripled since the beginning of the decade, to about $77 a barrel at one point in July.

But with oil prices sliding in recent weeks — on the New York Mercantile Exchange yesterday, crude oil for February delivery fell $2.14 a barrel, to $51.88 — several Wall Street analysts are predicting that the large integrated companies, refiners and smaller independents will all report significant declines in profit. “It’s not going to be very pretty,” said Fadel Gheit, senior energy analyst at Oppenheimer & Company. “There will be no more record earnings.”

Declining oil prices helped drive up the broader stock market, raising hopes that with inflation fears abating somewhat, the Federal Reserve may even consider lowering interest rates in the coming months. It was a turbulent day for energy traders, with the price of a barrel of oil opening just over $53, climbing at one point beyond $54, and then falling as low as $51.80. Traders who held large positions in oil futures dumped them, while speculators joined in short selling to take advantage of sliding prices.

“Everyone is looking for the bottom,” said Michael Rose, director of the energy trading desk at Angus Jackson in Fort Lauderdale, Fla. “But where is the bottom? Is it $50 a barrel, 40, 30? Nobody knows.”

The president of the Organization of the Petroleum Exporting Countries, Muhammad bin Dhaen al-Hamli of the United Arab Emirates, was said to have told the Emirates news agency that the group would move to prop up prices if necessary. “OPEC will act to stabilize the market if needed,” he was quoted as saying.

But few American analysts seemed to take his implied warning of possible future production cuts very seriously. “We’re looking at inventories that are very full,” Mr. Rose said. “Even if we have a cold snap, we have the reserves.”

As for the major oil companies, predictions of disappointing earnings are based on a fall in the average spot price for benchmark crude oil to $60.06 a barrel last quarter from

$70.56 the quarter before. And that slide came as OPEC announced two production cuts in two months at the end of last year.

The price dropped below $52 on Thursday for the first time since May 2005, a move all the more remarkable because it comes as Venezuela gains attention with talk of nationalizing energy and other industries, oil production in Nigeria is threatened by increasing violence, Iranian production is slipping and Russia sporadically cuts the flow to energy to other European nations.

Elsewhere, natural gas futures fell more than 6 percent amid an easing of demand and ample supplies.

Most analysts say oil prices have declined in part because of the uncommonly warm weather until recently in much of the United States and Europe, and amid conservation efforts by business and consumers.

Although retail gasoline prices have dropped considerably since the summer, to a nationwide average just under $2.30 a gallon from just over $3, they have barely moved since the beginning of the year as crude oil fell further. Several energy companies have alerted investors that for the time being at least, their feast of riches is over.

ConocoPhillips announced last week that its refining and marketing margins for the fourth quarter might be down as much as 25 percent. Chevron, the second-largest American energy company, warned this week that it “expects results in the fourth quarter to be adversely affected by lower commodity prices, lower downstream margins and lower refinery utilization attributable to planned maintenance and construction activities worldwide.”
BP has reported that its daily oil production declined in the recent quarter to 3.82 million barrels from 4.02 million barrels. Part of BP’s problems come from its inability so far to restart production at its giant Thunder Horse platform in the Gulf of Mexico, which was damaged by hurricanes in 2005.

Most of the big producers have been hurt by increased labor and service costs and by declines in oil and gas output in mature fields in North America and the North Sea. Many companies urgently need to modernize and otherwise reinvest in pipeline networks and refineries, and their increasing dependence on finding reserves in unstable areas like Venezuela and Nigeria creates higher security costs.

In recent years, many of those problems were negated by the rising commodity prices of oil and gas, and by share buybacks which increased the value of their stock.

Analysts are divided whether the expected tail-off in energy earnings is temporary or longer-lasting. And while they acknowledge that future oil prices cannot be predicted, they say there is little sign of an immediate rebound, given that American inventories of crude oil are 7 percent higher than the five-year average of 315 million barrels reported by the Energy Department.

“I think this is a seasonal pullback,” said Nicole Decker of Bear Stearns, who predicts a rebound in the spring. She said the current drop has pushed oil prices down to levels roughly equivalent to those at this time last year.

Mr. Gheit of Oppenheimer said he expected further pressure on oil prices. “I see prices drifting lower, barring international crises,” he said, but then quickly adding, “I would not rule out $80 oil if we invade Iran.”

On Wall Street Thursday, ConocoPhillips fell $2.71, or 4.2 percent, to $61.82; Chevron lost 72 cents, or just over 1 percent, ending at $68.69; and BP edged up 12 cents, to $61.59.